

ORIGINAL



0000145523

COMMISSIONERS

- Bob Stump – Chairman
- Gary Pierce
- Brenda Burns
- Bob Burns
- Susan Bitter Smith

RECEIVED

2013 APR 26 P 3:34

AZ CORP COMMISSION
DOCKET CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE
OF ITS UTILITY PLANT AND
PROPERTY, AND FOR ADJUSTMENTS
TO ITS RATES AND CHARGES FOR
UTILITY SERVICE FURNISHED BY ITS
NORTHERN GROUP AND FOR CERTAIN
RELATED APPROVALS.

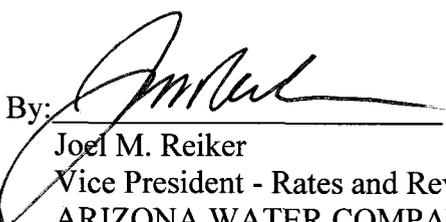
DOCKET NO. W-01445A-12-0348

**NOTICE OF FILING RESPONSIVE
TESTIMONY OF JOEL M. REIKER IN
SUPPORT OF SETTLEMENT
AGREEMENT**

Applicant, Arizona Water Company, hereby files the Responsive Testimony of Joel M. Reiker in the above-captioned docket.

DATED this 26th day of April, 2013.

ARIZONA WATER COMPANY

By: 

Joel M. Reiker
Vice President - Rates and Revenue
ARIZONA WATER COMPANY
Post Office Box 29006
Phoenix, Arizona 85038-9006

and

Steven A. Hirsch (No. 006360)
Stanley B. Lutz (No. 021195)
BRYAN CAVE LLP
Two North Central Avenue, Suite 2200
Phoenix, AZ 85004-4406
Attorneys for Arizona Water Company

Arizona Corporation Commission
DOCKETED

APR 26 2013

DOCKETED BY	
-------------	---

1 An ORIGINAL and thirteen (13) copies of the foregoing
2 filed this 26th day of April, 2013, with:

3 Docket Control Division
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 COPIES of the foregoing hand-delivered
8 this 26th day of April, 2013, to:

9 Janice Alward
10 Chief Counsel, Legal Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

14 Steven M. Olea
15 Director, Utilities Division
16 Arizona Corporation Commission
17 1200 West Washington Street
18 Phoenix, Arizona 85007

19 Daniel W. Pozefsky, Chief Counsel
20 Residential Utility Consumer Office
21 1110 West Washington Street, Suite 220
22 Phoenix, Arizona 85007

23 By: 

24
25
26
27
28

ARIZONA WATER COMPANY



Docket No. W-01445A-12-0348

**2012 NORTHERN GROUP
RATE CASE
For Test Year Ending 12/31/11**

**PREPARED
RESPONSIVE TESTIMONY
OF
JOEL M. REIKER
IN SUPPORT OF SETTLEMENT AGREEMENT**

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

TABLE OF CONTENTS

	Page
I. Introduction	3
II. Settlement Process	3
III. Terms of the Settlement Agreement	5
IV. Settlement Agreement Schedules and Exhibits	7
V. Public Interest	9

1 **ARIZONA WATER COMPANY**

2
3 **Testimony of**
4 **Joel M. Reiker**

5 **I. Introduction**

6 **Q. PLEASE STATE YOUR NAME, EMPLOYER AND TITLE.**

7 A. My name is Joel M. Reiker. I am employed by Arizona Water Company (the
8 "Company") as Vice President - Rates and Revenue.

9 **Q. ARE YOU THE SAME JOEL M. REIKER THAT PREVIOUSLY PROVIDED**
10 **DIRECT TESTIMONY IN THIS PROCEEDING?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to support the proposed Settlement Agreement
14 between the Company and the Arizona Corporation Commission Utilities Division
15 ("Staff") (collectively referred to as "Signatory Parties") filed on April 15, 2013, in
16 this proceeding. In supporting the proposed Settlement Agreement, I discuss the
17 settlement process, as well as the terms of the Settlement Agreement and the
18 public interest. I also sponsor the schedules and exhibits attached to the
19 proposed Settlement Agreement.

20 **II. Settlement Process**

21 **Q. PLEASE PROVIDE A SUMMARY OF THE PROCEEDINGS LEADING UP THE**
22 **SETTLEMENT.**

23 A. On August 1, 2012, the Company filed an application requesting adjustments to
24 its rates and charges for utility service provided by its Northern Group of water
25 systems. The Company's Northern Group includes its Navajo (Lakeside and
26 Overgaard) and Verde Valley (Sedona, Pinewood and Rimrock) water systems.
27 In its application, the Company requested an increase in revenues of \$2,829,777,
28 or approximately 28.0%, over test year revenues. The parties to this proceeding

1 include the Company, Staff and the Residential Utility Consumer Office
2 ("RUCO"). Following submittal of RUCO's and Staff's direct testimony on
3 February 28 and March 5, 2013, respectively, the Company contacted the parties
4 to explore the possibility of settling some or all of the outstanding issues in the
5 rate case. Based on the willingness of the parties to explore the possibility of
6 settlement, and after coordinating logistics, Staff filed a notice that a formal
7 settlement conference would be held at the Commission's offices on or after
8 March 19, 2013.

9 **Q. WHICH PARTIES PARTICIPATED IN THE SETTLEMENT CONFERENCE?**

10 A. The Company, Staff and RUCO all actively participated in the settlement
11 conference held at the Commission on March 19, 2013.

12 **Q. PLEASE DESCRIBE THE SETTLEMENT NEGOTIATIONS.**

13 A. The settlement negotiations were open, transparent, and inclusive of all parties,
14 with each such party having an equal opportunity to participate and fully express
15 their respective positions. There was a genuine desire and commitment on the
16 part of all of the parties to find common ground on the issues.

17 **Q. WHAT WAS THE OUTCOME OF THE SETTLEMENT NEGOTIATIONS?**

18 A. As a result of the commitment and the compromises that are inherently part of
19 any successful settlement effort, the Company was able to come to an
20 agreement on all of the issues with Staff, and most of the issues with RUCO.
21 Although RUCO is not a signatory to the Settlement Agreement, the Company
22 understands that the only issue remaining in dispute between RUCO and the
23 Signatory Parties is the authorized rate of return on equity ("ROE"), specifically
24 with regard to the potential impacts of (1) the System Improvement Benefits
25 ("SIB") mechanism, and (2) the compromised, negotiated rate design's
26 incorporation of a declining usage adjustment.¹ Notwithstanding RUCO's
27

28 ¹ Although the ROE reflected in the proposed Settlement Agreement already reflects significant
compromise on all issues, including the SIB mechanism and declining usage.

1 decision not to sign the proposed Settlement Agreement for these remaining
2 reasons, the settlement negotiations produced results that are just and
3 reasonable, in the public interest and provide benefits to all parties. The
4 Commission's approval of the proposed Settlement Agreement will further serve
5 the public interest by allowing the parties to this proceeding to avoid additional
6 expense and delay associated with continued litigation.

7 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

8 A. Yes. I sponsor the proposed Settlement Agreement filed on April 15, 2013, in
9 this proceeding and its associated schedules and exhibits.

10 **Q. ARE YOU SPONSORING ANY OTHER TESTIMONY IN THIS PROCEEDING?**

11 A. Yes. In addition to my own direct testimony filed on August 1, 2012, in this
12 proceeding, I sponsor the direct testimony of Company witnesses William M.
13 Garfield, Joseph D. Harris and Frederick K. Schneider.

14 **III. Terms of the Settlement Agreement**

15 **Q. WHAT ARE THE MAJOR TERMS OR PROVISIONS OF THE SETTLEMENT**
16 **AGREEMENT?**

17 A. The following terms are contained in the proposed Settlement Agreement.

- 18 • The Settlement Agreement reflects a capital structure consisting of
19 48.9% long-term debt and 51.1% equity.
- 20 • The Settlement Agreement reflects a cost of long-term debt of 6.82%.
- 21 • The Settlement Agreement reflects a compromised authorized ROE
22 of 10.0%. In arriving at the negotiated ROE, the Signatory Parties
23 weighed and took into account all other factors incorporated into the
24 Settlement Agreement, including but not limited to the System
25 Improvement Benefits ("SIB") mechanism and declining usage
26 adjustment, both of which are discussed below.
- 27 • The Settlement Agreement reflects an overall weighted average cost
28 of capital of 8.44%.

- 1 • The Settlement Agreement reflects an increase in annual revenues of
- 2 \$2,240,329, or 21.8%, for an annual revenue requirement of
- 3 \$12,496,939.
- 4 • The Settlement Agreement reflects a fair value rate base, which is
- 5 based on the original cost of the Company's assets devoted to public
- 6 service in its Northern Group, less depreciation, of \$36,045,295.
- 7 • The Settlement Agreement provides for the full consolidation of the
- 8 Verde Valley system by means of a single general service rate
- 9 across the Sedona, Pinewood and Rimrock systems.
- 10 • The Settlement Agreement reflects a residential and commercial
- 11 declining usage adjustment of 5%.
- 12 • The Settlement Agreement provides for the deferral of costs
- 13 associated with implementing and performing additional Best
- 14 Management Practices for recovery in a future general rate case.
- 15 • The Settlement Agreement provides for the implementation of an Off-
- 16 Site Facilities Fee tariff in the Sedona and Valley Vista public water
- 17 systems.
- 18 • The Settlement Agreement provides for the implementation of a SIB
- 19 mechanism for the Northern Group in the form ultimately approved by
- 20 the Commission in Docket No. 11-0310.
- 21 • The Settlement Agreement provides for the filing of future arsenic
- 22 cost recovery mechanism surcharges for both the Navajo and Verde
- 23 Valley systems.
- 24 • The Settlement Agreement rates will become effective on the date
- 25 specified in the Commission decision in this matter.
- 26 • The parties to the Settlement Agreement would expeditiously take
- 27 any and all steps reasonably necessary to complete the Settlement
- 28 Agreement and obtain Commission approval of the material terms of

1 the Settlement Agreement so that the Commission may adopt and
2 implement its provisions at the earliest possible date, and fully
3 support and defend all of the terms of the Settlement Agreement.

4 **IV. Settlement Agreement Schedules and Exhibits**

5 **Q. WHAT SCHEDULES ARE ATTACHED TO THE AGREEMENT?**

6 A. The Settlement Schedules consist of the following standard rate case filing
7 schedules required by the Commission for Class A utilities pursuant to Arizona
8 Administrative Code R14-2-103.B:

9	A-1	Computation of Increase in Gross Revenue Requirement
10	B-1	Summary of Original Cost Rate Base
11	B-2	Original Cost Rate Base Pro Forma Adjustments
12	B-2 Appendix	Detail of Original Cost Rate Base Pro Forma Adjustments
13	B-5	Computation of Working Capital
14	B-5 Appendix	Computation of Working Cash Requirement
15	C-1	Adjusted Test Year Income Statement
16	C-2	Income Statement Pro Forma Adjustments
17	C-2 Appendix	Detail of Income Statement Pro Forma Adjustments
18	C-3	Computation of Gross Revenue Conversion Factor
19	D-1	Summary Cost of Capital
20	H-3	Changes in Representative Rate Schedules
21	H-4	Typical Bill Analysis

22 These standard filing schedules reflect the settlement position of the
23 Signatory Parties regarding the Company's revenue requirement and the specific
24 rates and charges designed to produce such revenue. Where appropriate, the
25 Schedules provide the Company's original position, as set forth in its application,
26 and the specific adjustments applied to arrive at the settlement position.

1 Q. HAS THE COMPANY PREPARED AND ATTACHED REVISED TARIFF
2 SHEETS REFLECTING THE RATES AND CHARGES SET FORTH IN THE
3 AGREEMENT?

4 A. No. Tariff sheets are typically prepared by the utility and filed in the docket only
5 after the Commission issues an order approving new rates. Accordingly, the
6 Company will promptly file revised tariffs reflecting the rates approved by the
7 Commission after an order is issued in this proceeding. As stated above, the
8 Parties' proposed rates and charges are set forth in Schedule H-3 to the
9 Agreement.

10 Q. WHAT EXHIBITS ARE ATTACHED TO THE AGREEMENT?

11 A. Exhibit 1 to the Settlement Agreement in this proceeding is the settlement
12 agreement docketed on April 1, 2013, in Phase 2 of Docket No. 11-0310
13 regarding distribution system improvement charges ("DSIC") and DSIC-like
14 mechanisms ("SIB Settlement Agreement"). The Signatory Parties agree that
15 the terms and conditions of the SIB Settlement Agreement, as ultimately
16 approved by the Commission in Docket 11-0310, shall be applicable to the
17 Company's Northern Group. The specific SIB-eligible projects contemplated by
18 the Company are summarized in Exhibit FSK-19 to Mr. Schneider's direct
19 testimony filed on August 1, 2012, in this proceeding. Pursuant to Section 2.4 of
20 the SIB Settlement Agreement, the Company has prepared a listing of such
21 projects and their estimated costs in the form of SIB Plant Table I for Staff's
22 review. This table will be docketed prior to the commencement of hearings in
23 this proceeding.

24 Exhibit 2 to the Settlement Agreement is the tariff schedule for the Off-Site
25 Facilities Fee applicable to the Sedona and Valley Vista public water systems.
26 As detailed in Section 7.1 of the Settlement Agreement, the Signatory Parties
27 agree that an off-site facilities fee is appropriate for such systems. The purpose
28 of this fee is to more appropriately assign the costs of constructing additional off-

1 site facilities necessary to provide water production, treatment, delivery, storage
2 and pressure to new customers whose incremental demand makes these
3 additional facilities necessary. Specific language in this tariff schedule was
4 negotiated by the Signatory Parties.

5 **V. Public Interest**

6 **Q. PLEASE EXPLAIN WHY THE COMMISSION'S APPROVAL OF THE**
7 **SETTLEMENT AGREEMENT RESULTS IN RATES, CHARGES AND**
8 **CONDITIONS OF SERVICE THAT ARE JUST AND REASONABLE AND IN THE**
9 **PUBLIC INTEREST.**

10 A. As explained in Section III of my pre-filed direct testimony filed on August 1,
11 2012, in this proceeding, in the context of public utility regulation, a fair and
12 reasonable rate, in the aggregate, is one that provides the utility an opportunity to
13 recover no less, and no more, than its cost of providing service to the public,
14 including the cost of capital deployed to provide such service. The proposed
15 Settlement Agreement provides an opportunity for the Company to recover such
16 costs in its Northern Group over the time period that new rates will be in effect,
17 and is therefore in the public interest. Additionally, the Settlement Agreement
18 provides for the partial recovery of known and measurable costs associated with
19 qualifying infrastructure replacement projects and arsenic removal facilities
20 pursuant to the SIB mechanism and ACRM. Finally, by providing for the
21 implementation of an Off-Site Facilities Fee, the Settlement Agreement
22 appropriately assigns the costs of constructing additional off-site facilities
23 necessary to provide water production, treatment, delivery, storage and pressure
24 to new customers whose incremental demand makes these additional facilities
25 necessary.

26 **Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE**
27 **AGREEMENT?**

28 A. Yes.